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Eradication of poverty and other development issues: industrial development cooperation

Industrial development cooperation

Note by the Secretary-General**

The Secretary-General hereby transmits the report of the Director-General of the United Nations Industrial Development Organization (UNIDO) in accordance with General Assembly resolution 61/215 of 20 December 2006.

* A/63/150 and Corr.1.
** The report is submitted late in order to reflect the outcome of the most recent negotiations of the World Trade Organization Doha Round, which took place in Geneva towards the end of July 2008.

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Summary

In accordance with General Assembly resolution 61/215 of 20 December 2006, the report of the Director-General of the United Nations Industrial Development Organization (UNIDO) highlights recent trends and developments in the industrial performance of developing countries, while underlining the critical role of industrial development and private sector-led economic growth for sustainable economic development and poverty reduction. It explores the challenges of industrialization, which include, inter alia, underinvestment in the productive sectors inhibiting the emergence and expansion of a small and medium-sized enterprise sector; inequitable globalization and limited capacity to participate in international trade; access to energy for industry; and environmental implications, especially including climate change.

The report also examines the response of the multilateral development system to these challenges, especially in the light of the changing international development aid architecture and efforts to achieve greater coherence in the delivery of services to developing countries, particularly by the United Nations system.

The report highlights the role of UNIDO in meeting the challenges of industrial development in partnership with United Nations and non-United Nations entities, particularly in the least developed countries. It also outlines the continued contributions of UNIDO to the African Union New Partnership for Africa's Development (NEPAD).

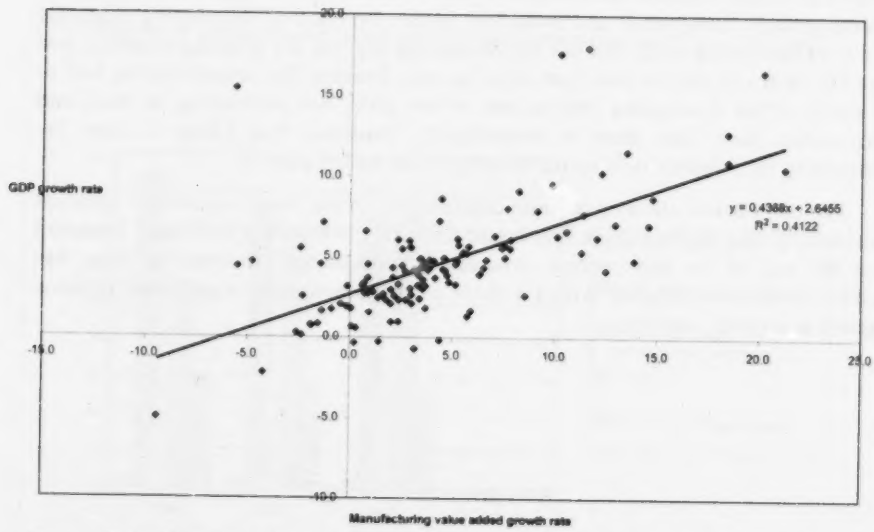
I. Trends in industrial development

A. Introduction

1. Even though the international community has been making progress in meeting the Millennium Development Goals by 2015, poverty remains prevalent in many parts of the world. While some regions and countries have made important strides, progress has been uneven. In sub-Saharan Africa, the projected shortfalls are raising serious concerns. Climate change and soaring energy and food prices are exacerbating the challenges that many developing countries, especially those in sub-Saharan Africa, face in achieving the Millennium Development Goals.

2. The present report examines the major challenges that developing countries are facing and which can, in part, be addressed through appropriate strategies for industrial development. Many developing countries have demonstrated how they have not only achieved remarkable strides in economic growth, but have harnessed this to lift people out of poverty. The well-known successes of South and East Asia show how properly formulated and implemented industrial strategies can transform economies and societies for the better. All the developed countries and the newly industrialized Asian countries, without exception, have used industry and the private sector as the main vehicles for achieving economic growth and wealth creation. The same pattern holds for developing countries. The following diagram is illustrative of this, showing the strong positive relationship between growth of manufacturing value added and gross domestic product (GDP), with the scatter points representing individual developing countries.

Association between growth of manufacturing value added and growth of GDP, 2000-2005



Source: United Nations Industrial Development Organization *Industrial Development Report 2008* (forthcoming).

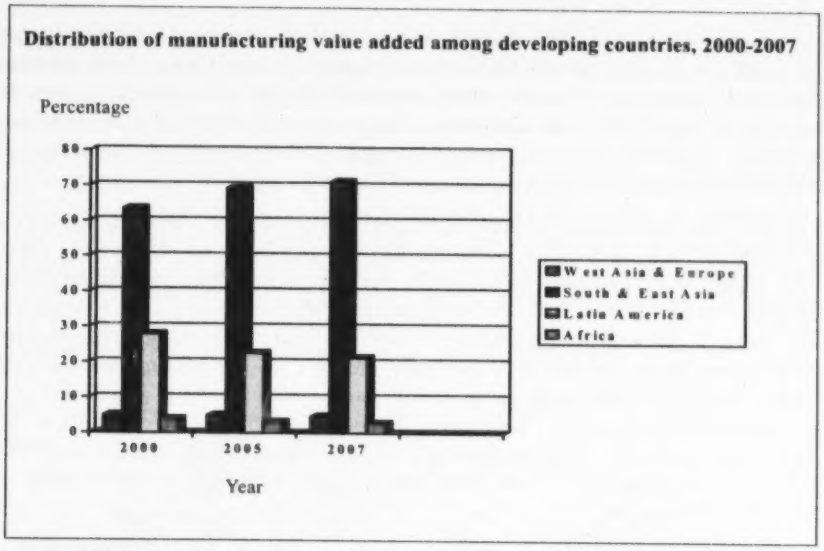
3. A growth-centred approach is all the more urgent as the economic and financial turmoil of recent times sharpens the focus on globalization, and as concern over the price of basic foodstuffs and energy affects economic stability in developing and developed countries alike. These factors pose a real danger to lives and livelihoods in the short term, but also to building sustainable development in the medium to longer term. This is not only because of the direct effect wrought by these price shocks on developing countries, but also because developed countries may respond to their own economic difficulties by taking steps which could hamper industrialization and productive activities in the developing world. Yet in an interdependent world, international prosperity and stability rest more than ever on open markets and the free exchange of goods, underpinned by growing economies in the developing world able to absorb more of the goods from the developed world. For developing countries, this means industrialization-led economic growth that lifts a sizeable segment of the populations from poverty. How to achieve this for those countries left behind, while also de-linking their growth from environmental degradation, is the policy imperative for industrial development in the years ahead.

4. The multilateral development system too is at a crossroads — as the donor base for international development cooperation becomes more diffuse at the same time that the United Nations system moves to increase its coherence in service delivery. For actors in industrial development, a further challenge will be how to ensure that strategies for pro-poor growth and support to industry are integrated into the currently restructuring international development cooperation architecture.

B. Industrial performance among developing countries

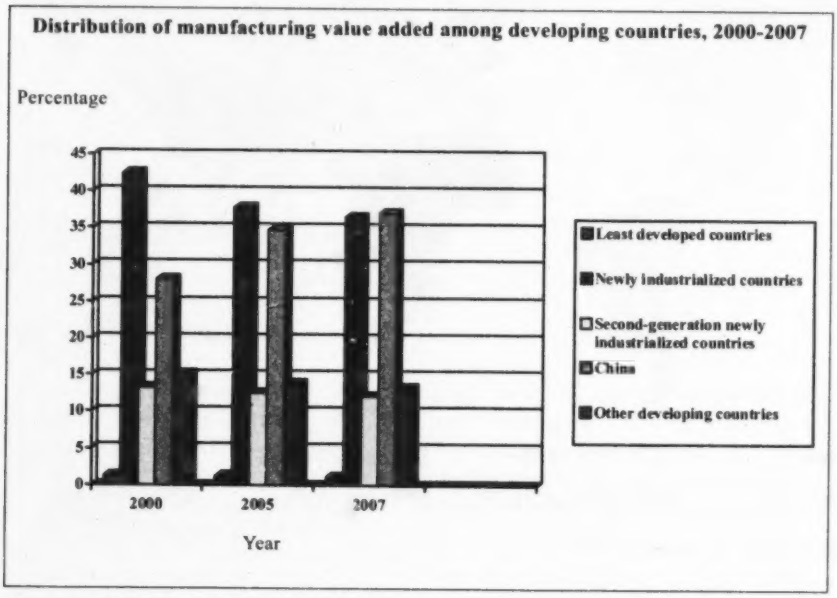
5. Industrial development itself is undergoing change. It is no longer possible to think of a country's industrialization as a purely internal process: manufacturing has become globally integrated, and is shifting in the direction of developing countries at an ever-increasing pace. But not all developing regions are growing together, and there are clear indications that East Asia has now become the manufacturing hub of the world. Other developing regions are, in the main, not performing as well, and even within East Asia there is considerable evidence that China is now far outstripping its neighbours in manufacturing value added growth.

6. The table below shows a definite continuation of the trend towards the location of manufacturing production in South and East Asia, which has continued unabated since the end of the last century, whereas Latin America's respective share has declined, while sub-Saharan Africa's share of manufacturing value added remains stagnant at around 1 per cent.



Source: UNIDO Industrial Statistics 2008.

7. A closer look at the division of manufacturing production between developing countries, this time according to income group, is especially revealing. 2007 marked the first year in which China alone has outstripped the other groups listed in terms of manufacturing value added, overtaking all the newly industrialized countries combined. A loss in distribution of manufacturing production is evident in all other developing country groups, and among least developed countries (LDCs) especially, the proportion is decreasing to infinitesimal levels.

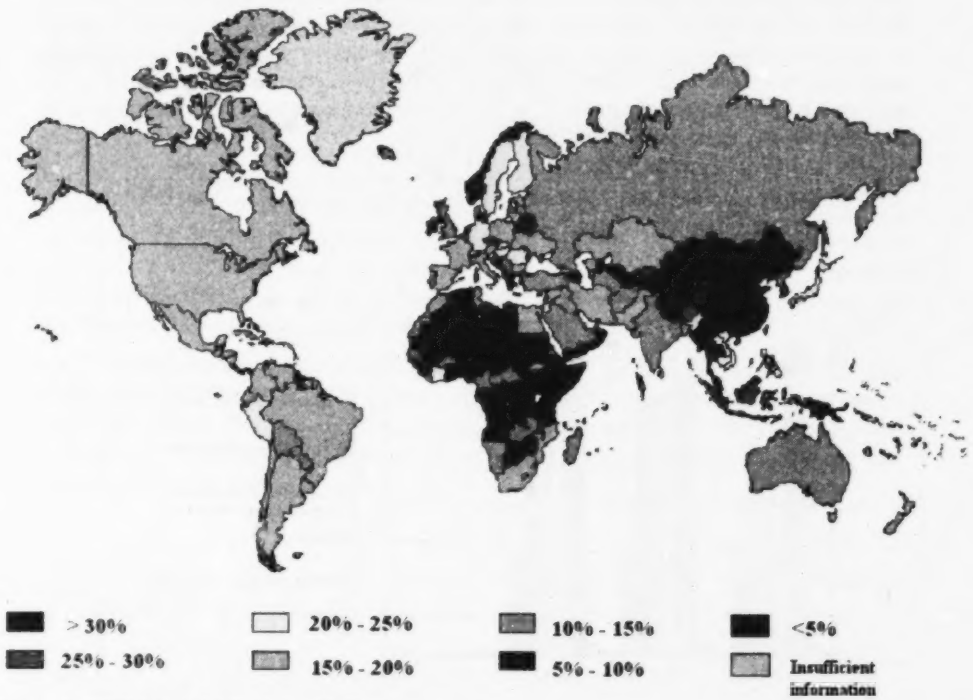


Source: UNIDO Industrial Statistics 2008.

8. A major shift in industrial output, encompassing developed and developing countries alike, continues apace. As South and East Asia, and China above all, lead the developing world in terms of share of manufacturing value added, so too do these countries especially now lead the world in terms of share of manufacturing value added in GDP. The map below illustrates the increasing clustering of manufacturing in Asia.

9. In 1965 the manufacturing sectors of East Asia and Latin America were of a similar relative size, accounting for around 25 per cent of GDP. By 1980, manufacturing's share had risen to almost 35 per cent in East Asia and stayed above 30 per cent into the 1990s. In Latin America, manufacturing remained stagnant at slightly above 25 per cent throughout the 1980s. The share of manufacturing in GDP in East Asia overall is now about 30 per cent, with over 34 per cent of China's GDP accounted for by manufacturing value added. But manufacturing is experiencing a sharp decline in Latin America, falling to a low of about 18 per cent of GDP overall in 2006. In sub-Saharan Africa, excluding South Africa, the share of manufacturing in GDP has never surpassed 12 per cent, and remains below 5 per cent in many of the countries in the region.

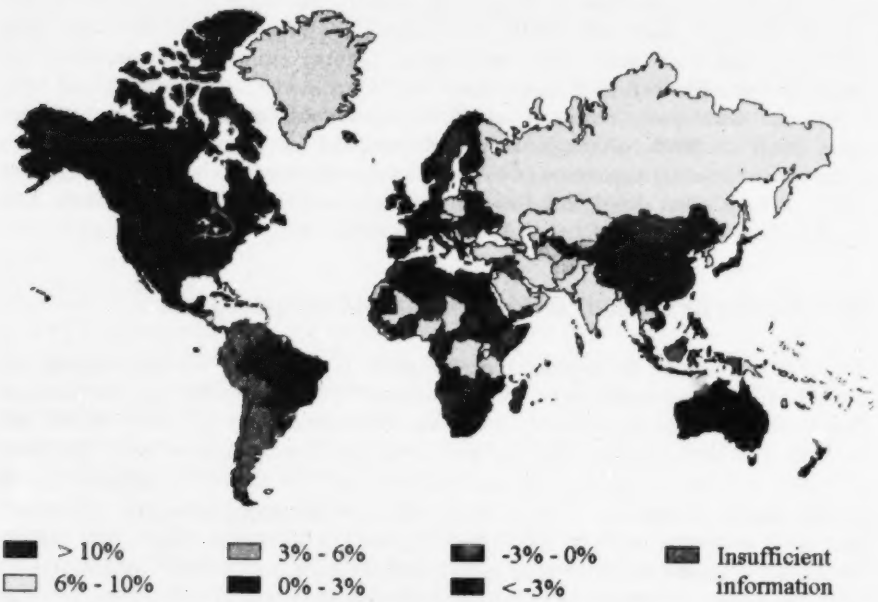
Share of manufacturing value added in GDP, 2006



Source: UNIDO Industrial Statistics 2008.

10. The map below illustrates annual growth of manufacturing value added, further confirming China's emergence as a world leader in industrial output, and moreover suggests that this is set to continue. China's annual manufacturing value added growth is expanding at a rate well ahead of most of its neighbours and competitors. As well as demonstrating that growth in manufacturing industry is low, or even negative, in most developed countries, the map underscores the fact the "developing world" is not a homogeneous group where industrialization is concerned. Despite slow growth in sub-Saharan Africa, there is real progress, with Angola, Congo and Mozambique proving among the fastest growing worldwide in this category, and a number of other promising increases in Africa are in evidence.

Annual growth of manufacturing value added, 2000-2006



Source: UNIDO Industrial Statistics 2008.

C. Trade in manufactures

11. Despite a deceleration in global trade in 2007, trade in manufactures grew strongly in the last decade, with the South continuing the now-established trend according to which its overall trade is increasing at a faster pace than that of the North. 2007 also saw very high commodity prices, which, while leading to an expansion of trade for some LDCs in particular,[1] have not bolstered these countries' trade in manufactures.

[1] See *World Trade Report 2008*, World Trade Organization (Geneva, 2008).

12. The rapid growth of developing country manufactured exports tallies strongly with the tendency towards their increased production in the South, as borne out by the indicators above. South-South trade is also a very strong driver of this growth: trade in manufactures within the developing world grew at 16 per cent per annum between 2000 and 2005. While global manufactured trade continues to be concentrated within the developed world, South-South trade has increased its share in world trade by 4 percentage points within this same period, and now accounts for 14.5 per cent of global trade. Developing to developed country trade has roughly maintained its share of global trade in manufactures, growing at around 10 per cent per year. Trade between developed and developing countries and between high-income countries grew at around 8 per cent within this period.

13. However, the regional distribution of gains in manufacturing trade among developing countries is starkly uneven. East Asia is dominating South-South trade, accounting for 74 per cent of developing country increases in the value of such exports between 2000 and 2005. The scope for intensified South-South trade between East Asia and other developing regions remains considerable, yet intraregional trade in East Asia accounts for 77 per cent of all manufactured trade within the developing world. Meanwhile Latin America lost world market share from 2000 to 2005, although very high levels of primary commodity prices underpinned a strong expansion of overall merchandise trade values in that region in 2007. On the other hand, sub-Saharan Africa, the Middle East and South Asia increased their shares of global trade only modestly.[2]

II. Key issues in industrial development cooperation

14. The disparities in industrial performance between the various regions are neither fixed nor permanent. With support from partners in international development, the green shoots of economic development can transform Africa and the poorest countries of the world as they are doing in many parts of Asia. The chief obstacles to doing so are fourfold: ongoing poverty in the face of an underdeveloped private sector, especially where small and medium enterprises are concerned; barriers to international trade, whether tariff-based or otherwise, which limit exports from developing countries; energy access; and the effects of climate change and the need for environmental protection to be built into industrial development. To these may be added a number of further challenges, such as access to information and technology, which are cross-cutting and interrelated. Responses by the multilateral development system are considered in the present section and section III below.

A. Private sector-led poverty reduction

15. Poverty reduction remains the paramount development issue and many countries are not on track to achieve the relevant Millennium Development Goals target. Even though indicators show a slight improvement in sub-Saharan Africa, progress is slow compared to other developing regions. For instance, this region has seen a decline in the proportion of people living on one dollar a day or less from

[2] See *Trade and Development Report 2007* (United Nations publications, Sales No. E.07.II.D.11).

45.9 per cent in 1999 to 41.1 per cent in 2004. But compared with all other regions, this is the highest incidence of poverty and the slowest decline encountered.[3]

16. This is largely due to the inadequate rate and quality of economic growth. The African long-term growth chart is sometimes described as U-shaped, since the higher growth rates posted in the 1960s were followed by a contraction from the 1970s to the middle of the 1990s. Even though growth rates have improved over the last year or more to stand at about 5 per cent today, this reflects the price increases of primary commodities, and are not necessarily productivity-driven, as also borne out by the figures on manufacturing value added as a proportion of GDP in section I above. Such a growth pattern is not sustainable, as it is subject to ongoing volatility in the prices of these commodities. Furthermore, it is usually not a socially inclusive form of growth, tending to benefit mostly the owners of a small number of large enterprises and not resulting in a significant increase of formal employment. The risk of the so-called "Dutch disease", whereby overdependence on commodities or extractive industries can lead to decline in other areas of the economy, is also prevalent.

17. The development focus of the past decade has been squarely on combating poverty through meeting basic needs. The humanitarian and social requirements of poor countries clearly cannot be ignored. But in order to meet international goals such as the Millennium Development Goals, a long-term approach must be taken. The challenge is to create an economic dynamism, which targets productivity growth beyond a few small sectors. And this dynamism must spring from the private sector.

18. The difficulties facing developing countries where private sector development is concerned are manifold, but mostly emanate from fragile enabling environments for business and investment, ranging from lack of good governance and rule of law to ineffective industrial strategies and lack of support for entrepreneurship. Investment climate reforms in general and a conducive business environment are important preconditions for private sector development. External factors such as barriers to international trade also play a major role.

19. High levels of informality persist in developing countries: in sub-Saharan Africa, it has been estimated that 80 per cent of the non-agricultural workforce is engaged in the informal economy, while in South Asia the figure is some 70 per cent.[4] Creating an economy with a higher proportion of formal enterprises and jobs is important to long-term wealth creation, stability and poverty reduction, providing better paid employment, building investor confidence, and encouraging links between enterprises.

20. Formal enterprise structures that do exist are mostly characterized by a large base of microenterprises, a small number of (often foreign or State-owned) large enterprises, and a low number of small and medium-sized enterprises in between. This "missing middle" creates a major disadvantage for developing countries, as it is these medium-sized firms that often occupy specific niche markets, expanding the specialization spectrum of a given locality and frequently bridging the gap between both existing poles, as well as combining the positive aspects of both, such as

[3] *The Millennium Development Goals Report 2007*, United Nations (New York, 2007).

[4] *Unleashing Entrepreneurship: Making Business Work for the Poor*, report of the Commission on the Private Sector and Development (United Nations publication, Sales No. E.04.III.B.4).

flexibility and scales of production. This also impacts upon inter-firm linkages, the creation of value chains and cooperation that can transform whole sectors of an economy. With a "missing middle", this is less likely.

21. Innovation capabilities in the private sector of developing countries are often limited, and among LDCs, support for innovation systems is weak. Access to technology and information is also a key issue; the African mobile telecommunications market is the fastest growing of all regions, growing at twice the rate of the global market and, while Internet use has not reached this level, it is estimated that around 1 person among 20 in the Continent had access to the Internet by 2007.[5] The effect that recourse to such information and means of collaborative activity has on the productive sectors is not to be underestimated. In many developing countries, the use and availability of mobile telephones has provided farmers with instant information on local market prices for their produce. All this serves to liberate small and microenterprises from otherwise restrictive local markets, hemmed in previously by geography and lack of information. Access to and training in such technologies will become ever more vital to the growth of developing country enterprises.

22. To address these challenges, pro-poor growth strategies are needed that build on market forces wherever possible and offer targeted public support schemes where necessary. Industrial strategy should remove regulatory obstacles that detract from entrepreneurial activities, and should focus on building the "missing middle" by supporting the development of innovative and dynamic small and medium-sized enterprises capable of competing locally and possibly internationally. In middle-income countries, economic growth may be relatively high and yet poverty can remain problematic. In such countries too, public policy can improve the pro-poor effect of growth, targeting issues such as inequality in income, education and gender as well as addressing impediments shared also with developing countries. The goal must be to help people grow out of poverty while laying the foundation for a modern and industrialized society.

B. Equitable globalization and the means to trade

23. Trade has been recognized as a central element in industrial development strategies for some time, although different economic theories have ascribed different roles to it. From the 1980s onward, the importance of trade for development focused on improving the trading opportunities for developing countries, often through special and differential treatment, and special regimes aimed at commodity exports. More recently, in tandem with the increasing globalization of the world economy, the Millennium Development Goals target on global partnership contains at its core the aim to develop a trading system that is open, rule-based, predictable and non-discriminatory. The Doha Round of trade negotiations was initiated by the World Trade Organization in 2001, one year after the Millennium Declaration was adopted, and the spirit of the Millennium Development Goals target was incorporated into the talks, leading it to be dubbed the "Development Round". Meanwhile initiatives such as the European Union's

[5] See *African Telecommunication/ICT Indicators 2008: At a Crossroads*, International Telecommunication Union (Geneva, 2008).

Everything But Arms and the United States African Growth and Opportunity Act have helped to open potential markets by reducing duties and quotas.

24. As negotiations in the Doha Round falter, developing countries continue to face significant distortions, and have been unable to take full advantage of the limited moves made by the industrialized countries to open up markets.[6] While global trade has increased significantly over the last decades, and despite the fact that developing countries are giving greater priority to trade and its linkages to poverty in their national development strategies, the volume of LDC exports is only marginally higher than it was about 15 years ago.[7] One reason for this is that barriers to trade continue to lock out a significant proportion of the developing world from access to markets in sectors where industry might thrive. A successful outcome of the Doha Round — or a similar future multilateral trading agreement — balanced across the full range of market access issues in agriculture and industrial goods in particular, will go a long way towards fulfilling the potential of developing countries to properly and fairly integrate into the world economy while fully reflecting the development intentions of the Doha Round.

25. Further, merely opening up economies to trade does not suffice. The link between trade liberalization, an increase in trade from developing countries and poverty reduction is not automatic. Trade can create opportunities for pro-poor economic growth through the encouragement of productive activities and the expansion and diversification of sources of employment in developing countries, but there is no guarantee that export expansion will lead to inclusive economic growth. In LDCs in particular, the productive supply capacity or export base is narrow, and relies too strongly on commodities. Exporters trying to export new products and penetrate new markets may lack access to legal and commercial information services and to the technical support needed to develop their products and reach markets. Many countries lack supporting infrastructure, both physical — such as transport and communications — and institutional — such as bodies to implement international trade rules or to offer financial services.

26. Progress is therefore required, not only on the access issues foreseen in the Doha Round, but also on value-addition, diversification of production away from commodities, and capacity-building to meet the technical and business requirements of participation in trade. In response to the latter, and as a complement to the Doha Round negotiations, the Aid for Trade Initiative is a key way to support countries in developing their export capacity. While this is a move in the right direction, nonetheless the share of overseas development assistance allocated to Aid for Trade fell from almost 36 per cent in 2002 to under 30 per cent in 2006, and its allocation has been geographically uneven.[8] Moreover, calculating what donors commit to Aid for Trade is difficult, as not all subscribe to all elements of the World Trade Organization General Council definition, and reporting through the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD-DAC) is inconsistent. Greater clarity in its definition and reporting would enhance its capability to mobilize resources.

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[6] See "Trade capacity-building: role of UNIDO and the multilateral system" (background paper prepared for the Informal Consultative Group on Trade Capacity-Building, Vienna, 2003.

[7] Excluding oil, the share of global exports from LDCs stagnated around 0.38 per cent between 1995 and 2006 (source: UNCTAD GlobStat database).

[8] *Global Monitoring Report 2008*, World Bank (Washington, D.C., 2008).

C. New challenges in international trade

27. **Regionalism**: The first decade of the twenty-first century has confirmed that globalization is here to stay. But the nature of globalization itself is evolving, creating opportunities and challenges for developing countries, particularly LDCs. As the Doha Round has stalled, a new emphasis on regionalism may intensify, highlighted in the European Union's Economic Partnership Agreements. Almost 50 per cent of global merchandise trade is covered by such regional trade agreements, which, while no substitute for a development-focused global agreement, can help developing countries to overcome limits such as small economic size and geographic isolation by creating more trading opportunities, enhancing efficiency, increasing attractiveness for foreign direct investment and securing greater bargaining power for countries that are members of an integrated region. In order to maximize their potential participation in such agreements to the betterment of sustainable development, developing countries will need continued assistance in meeting the standards and other requirements that underpin them.

28. **Product and quality standards**: International product and quality standards, already a difficult barrier to trade for developing countries, have been joined in recent times by the emergence of private standards. Although the private sector has long been the driving force behind the formulation and management of management and product standards in industrialized countries, an increasing number of private standards and retailer requirements are impacting on the ability of developing country enterprises to participate in global production and supply chains, essentially acting as a further barrier to entry. While the origins of such standards are diverse, they are to some extent linked to growing consumer demand — especially in industrialized countries — for goods to be produced and supplied in a way which maximizes a high level of quality with a low level of environmental impact. More emphasis will thus need to be given to the significance of private sector requirements for enterprise systems and product standards, including the production and supply of manufactured goods in a manner that minimizes the release of carbon dioxide and other emissions. For developing countries, mainstreaming "green growth" into trade represents a formidable challenge, but also an opportunity, especially in the agro-industrial sector.

29. **Trade in commodities and diversification**: Competition for commodities is intensifying in the light of the recent and sustained increase in their price levels. While some developing country exporters of primary commodities may derive benefit from this demand, the key realities of the commodity economy remain, namely, price volatility in the sector and limited development gains from their production and trade. Without putting in place strategies to encourage diversification into value-added exports, which are capable of enduring price shocks and responsive to changes in international demand, the benefits accruing from trade in primary commodities are unlikely to filter down to the poorest in the long run.

D. Access to energy

30. As economic growth accelerates, particularly in developing countries, the world is consuming natural resources at an unprecedented rate. In countries such as China and India, for example, oil consumption has doubled in the past decade. Likewise the newly industrialized countries are struggling to build power generation

capacity and grids fast enough to meet the growth in demand; China, for example, is expected to add another 500 gigawatts of generating capacity by 2020, on top of 400 gigawatts added over the past two decades. Rising demand for energy and materials is spurring a massive need for investment: according to the International Energy Agency, the oil industry alone must invest $4.3 trillion from 2005 to 2030 in order to keep pace.

31. Meanwhile the very poorest countries continue to lag behind. However, one effect of the pressure on energy supply has been to refocus attention on renewable energy, which has the potential to make a useful contribution to energy access for industry in these countries. Renewable energy based on water, wind, biomass, photovoltaic and solar energy is gaining ground in many countries. More recently, in the wake of the food price crisis, concerns on the effects of biofuel production on food supply have arisen, but the introduction of second-generation biofuels, which promote the use of waste products from agro-industrial processing, can have a vital role in securing energy for the poor.

32. Measures to improve energy efficiency in all sectors of the economy, including in industry, should also be followed. This will not only provide the best use of a limited energy supply, but will also contribute to combating climate change.

E. Environmental implications and climate change

33. According to the Intergovernmental Panel on Climate Change, greenhouse gas emissions have increased by 70 per cent between 1970 and 2004, with carbon dioxide (CO_2) — by far the largest source — growing by 80 per cent in this same period. Industry is one of the main sources of these emissions: it is responsible for 43 per cent of all CO_2 emissions and 65 per cent of the global growth in greenhouse gas emissions. About 85 per cent of the industrial sector's energy use occurs in energy-intensive industries such as iron and steel, non-ferrous metals, chemicals and fertilizers, petroleum refining, glass and ceramics, and pulp and paper. The sector also emits large quantities of non-CO_2 greenhouse gases, such as hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

34. Yet industry — necessary to drive pro-poor economic growth — is also the predominant source of technological solutions to mitigate climate change. Many of the technologies and instruments needed to respond to the global challenge of climate change are already available, and others should be commercialized in the coming years, once appropriate incentives are put in place. The flows of information, experience, expertise and equipment between countries hold the key for transfer of technology for both climate change mitigation and adaptation.

35. Unless countries and their industries follow a sustainable, low-carbon path to development, industrialization will not only have an adverse impact on global climate but will also undo economic progress. Because of their paucity of resources or their geographic location, developing countries are particularly at risk. The most effective long-term solution is the adoption of a global low-emissions economic development strategy as a central component of a global agreement to combat climate change. Economic growth and the fight against climate change should not just proceed hand in hand; they should become two parts of the same whole, simultaneously addressing cost-effective mitigation, adaptation and sustainable

development objectives. Such a scenario is inconceivable without technology and know-how development and dissemination at its core.

36. The growth in sustainable development practices has proceeded slowly so far. There are still a number of barriers to the deployment and diffusion of environmentally sound technologies and know-how, be it lack of awareness or human intransigence, the absence of appropriate policies and regulatory frameworks, or insufficient investment in the infrastructure needed for new energy technologies. The key is to forge an effective international mechanism for the development and dissemination of technologies, aiming to remove barriers, providing predictable financial resources and other incentives for scaling up investment in environmentally sound technologies around the world, especially in developing countries. It is here above all where the multilateral system has a central role to play in convening nations and building consensus on norms and standards to which all nations can adhere for their common good.

III. The changing context of international industrial development cooperation

37. Multilateral development cooperation is also undergoing profound changes. Since the start of the new century, the number of donors and forms of assistance in international development as a whole has become more diffused. On the donor side, joint financing and other forms of harmonization are becoming apparent, while private sector involvement is increasing. Instead of direct project support, where bilateral or multilateral agencies implemented their own programmes directly, the emphasis now is increasingly on partner country-led strategies. Such an approach, formalized in the Paris Declaration on Aid Effectiveness, is intended to increase country ownership and donor coordination and harmonization of operational policies and procedures. This has resulted in new aid modalities such as sector-wide approaches, basket funding and budget support, all geared towards the promotion of alignment between aid and priorities and programmes of aid recipients. The introduction of poverty reduction strategies as a programming tool for both Governments and development agencies is a practical step in this direction.

38. Emerging new bilateral donors, many of whom are from the South, are changing the face of development cooperation. While empirical evidence regarding the actual weight of their contribution is incomplete, this gives a new meaning to South-South and triangular cooperation, which will have repercussions for the roles and activities of multilateral development agencies.

39. The implications of the changing aid architecture are diverse, but it is clear that the multilateral development system is at a turning point. Within the United Nations system, over the past two years, the issue of system-wide coherence has received renewed attention among Member States and organizations. Since the launch of the report of the High-level Panel on System-wide Coherence, in November 2006, it has been an important subject of discussions at the General Assembly, the governing bodies of United Nations specialized agencies, funds and programmes and in the principal inter-agency body of the system — the United Nations System Chief Executives Board for Coordination, including the United Nations Development Group. Progress towards system-wide coherence has been most pronounced at the country level. The launching of the "Delivering as One"

initiative in eight pilot countries towards the end of 2006 and the beginning of 2007 introduced an important dimension into the drive towards increased coherence among United Nations organizations at the country level.

40. As far as national needs in industrial development assistance are concerned in these pilot countries, strategies for their implementation have been integrated as components of the economic development sections of United Nations system-wide "One Plans" or in the United Nations Development Assistance Frameworks (UNDAFs). The mainstreaming of a country-led approach to delivery has had the benefit of reinforcing the economic aspects of development, which tended to be underrepresented next to pressing social and humanitarian needs in the past. UNDAFs based on country-driven poverty reduction strategy papers are giving more emphasis to private sector-led economic growth against poverty than heretofore.

41. Yet the new industrial realties outlined in section II above do not yet match development cooperation on the ground. For one, asymmetries remain in donor-recipient relations, and much bilateral aid remains earmarked toward sectors or programmes chosen by the donors themselves. Furthermore, as the developing world has become more complex and varied, the response of multilateral development should mirror this, maintaining even through its moves towards cohesion the capacity to be flexible and dynamic enough to adapt to sudden changes or newly emerging needs.

42. As noted above, regional integration is increasing, and some aspects of, inter alia, development, or assistance in combating climate change, may be best carried out at a regional or global level. International cooperation needs to focus more closely on how to assist and support new regional bodies and institutions in this regard. Country-level approaches alone will not suffice.

43. Quite apart from programme delivery at the country level, the new spirit of coherence within the United Nations system also provides an opportunity to consider the overall value that the system can bring globally in industrial development, and specifically its role in convening nations, as a catalyst for establishing norms and standards, as a guardian for internationally agreed rules and as a provider of impartial advice to stakeholders. For these are some of the main tasks to be undertaken in meeting industrial development challenges — from combating climate change to creating a fairer system for international trade. The United Nations system contains a wealth of specialization and expertise that can and should be brought to bear on these development challenges. Furthermore, as mutually reinforcing agents for development, a development compact between the United Nations system and the international financial institutions would provide a strong basis for a truly global approach to multilateral development assistance.

IV. The response of the United Nations Industrial Development Organization

44. As a means of achieving internationally agreed development goals, such as the Millennium Development Goals, as well as challenges such as those identified in section II above, UNIDO, the specialized agency of the United Nations mandated to promote sustainable, private sector-led industrial development and international industrial cooperation, works to advance pro-poor economic growth, and particularly to facilitate sustainable patterns of industrial development, which contribute positively to the improvement of living standards and quality of life of people in all countries.

45. The Organization's approach to development is a holistic one, with partnership at its centre. The specialization of UNIDO, its thematic areas of focus and its relationships with other relevant actors impact upon the Organization's role and position within the wider multilateral development system. To this end, UNIDO partners closely with United Nations system organizations such as the United Nations Development Programme (UNDP), the Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agricultural Development, the United Nations Environment Programme (UNEP), the International Trade Centre UNCTAD/WTO and others. UNIDO participates actively in relevant United Nations system-wide initiatives and coordination mechanisms at global, regional and national level, and seeks to advance the effectiveness, efficiency, coherence and impact of the United Nations development system in assisting countries and the international community in achieving agreed development goals. It cooperates and collaborates with complementary governmental institutions, international financial institutions such as the World Bank and the regional development banks, and global and regional regulators. Where appropriate, UNIDO also seeks synergies with bilateral aid agencies, thematic partnerships, private enterprises, civil society and academia.

46. In order to make the best use possible of its expertise and resources, UNIDO focuses on three thematic priorities, directly responding to international development priorities: poverty reduction through productive activities, trade capacity-building, and environment and energy. These priorities are furthered through the global forum function of UNIDO, its technical assistance to developing countries, and its research and normative work.

A. Poverty reduction through productive activities

47. Poverty reduction through productive activities is the programmatic umbrella of UNIDO for fostering the role of private enterprise as the key dynamic factor in growing the economy through wealth creation and helping the poor to earn a living. This predominantly comprises measures to stimulate small and medium-sized enterprises (SMEs) and entrepreneurship development. UNIDO assistance also emphasizes the major role of the public sector in creating the right conditions for private enterprise development through industrial policies and support institutions, and therefore targets both the private as well as the public sector. Recognizing that collaboration between stakeholders provides the most enduring foundation for

pro-poor growth, UNIDO actively seeks innovative partnerships with the private sector and others.

48. UNIDO supports enterprise development through complementary services targeting the improvement of the business, policy and institutional environment, the promotion of investment, business networking and entrepreneurship development. A specifically sectoral focus remains on agro-processing industries, which offer the greatest opportunities for the poor to play an active part in economic development, while advances in and opportunities arising through the exploitation of information and communications technology (ICT) are also addressed. Linkages between businesses are key and are central to a number of long-running UNIDO programmes, such as SME cluster development, strengthening industrial value chains and developing SME export consortia.

49. An example of the policy assistance UNIDO provides with a view to creating a framework to maximize the growth potential of enterprises is in Viet Nam, where UNIDO is working with the Ministry of Planning and Investment on an implementation plan for the nationwide Business Registration Reform. The project aims to provide a fully computerized and consolidated business, tax and statistics registration system where formalities can be completed at one single point, and will greatly lower the costs and risks of doing business in Viet Nam and contribute to the growth of the private sector.

50. UNIDO also recognizes the increasing need for exporting enterprises to demonstrate their adherence to corporate social responsibility. Recognizing that SMEs in developing countries face great difficulties in this respect, UNIDO developed the Responsible Entrepreneurs Achievement Programme (REAP). Enabling SMEs to respond proactively to global market requirements concerning social, environmental and anti-corruption standards, REAP makes an important contribution to the adoption of ethical business practices, in particular to the United Nations Global Compact. In addition, UNIDO is playing a central role in helping to design the upcoming international guidance on social responsibility ISO 26000.

Uganda: UNIDO innovations in private sector development

The UNIDO Business Information Centres programme is harnessing ICT and relevant business information for the benefit of local entrepreneurs in Africa.

This programme has seen marked success in Uganda, where the establishment of eight such centres in semi-urban areas has encouraged the use of ICT for the development of entrepreneurial skills, access to relevant business information and linkages to markets. The programme, which sees UNIDO partnering with Microsoft Corporation and the Government of Uganda, received the 2007 Africa Investor Award in the category "Best initiative in support of SME development".

B. Trade capacity-building

51. If poor countries are to benefit from economic growth through greater market penetration and fuller participation in global trade, they must strengthen and diversify their productive capacities, overcome supply-side constraints, improve competitiveness and exploit economies of scale, thereby integrating into regional and global value chains. Many developing countries, however, are ill equipped to take advantage of the opportunities provided by trade.

52. UNIDO is the largest provider of trade-related technical assistance among the multilateral agencies.[9] Building on its know-how and 40 years of experience in industrial development, the Organization has developed a strategic trade capacity-building approach to overcome the constraints hampering effective industrial productive capacity. UNIDO has identified three main clusters of services where it can add real value: competitiveness analysis and trade-related policies; quality management and enterprise upgrading; and standards, metrology, conformity assessment and accreditation. It works closely with other organizations (such as the United Nations Conference on Trade and Development and the International Trade Centre UNCTAD/WTO).

53. A notable example of where trade-related technical assistance can have a catalytic effect on growth and poverty reduction is the assistance UNIDO is providing in Afghanistan, where years of instability have led to shortages of consumer goods and undermined the rule of law, while unscrupulous traders have supplied substandard products and manufacturing exports have been hampered by lack of compliance with international standards. UNIDO helped to set up a basic standards and conformity assessment infrastructure through the establishment of the Afghan National Standards Authority in 2005, which has now succeeded in taking up membership of the International Organization for Standardization (ISO). UNIDO supports the agency in preparing legislation to provide the legal framework for product standards, as well as helping the Afghan National Standards Authority in the recruitment and training of staff and strengthening international cooperation with regional standards organizations.

Physical traceability systems for agro-industrial products

Consumers in developed countries constitute a substantial potential market for high quality food from developing countries. One area of growing concern for consumers and regulators is the ability to trace food from "farm-to-fork", ensuring that the product has been subject to high standards of production and delivery along the chain. Increasing interest in the carbon footprint of food production will also make the traceability of this information an area of interest to agri-business exporters in the developing world. In Egypt, the agricultural sector accounts for 20 per cent of total exports, much of it destined for the European Union. The Ministry of Foreign Trade requested UNIDO assistance in ensuring compliance with a European Union regulation on food safety and circulation, introduced in 2002. In response, UNIDO established the

[9] See Joint World Trade Organization/OECD Report on Trade-Related Technical Assistance and Capacity Building (2007).

Egyptian Traceability Centre for Agro-Industrial Exports (ETRACE). ETRACE provides technical assistance for food and quality safety to local growers, packers and traders, with a focus on traceability systems. It aims to reduce barriers to trade for Egyptian enterprises by supporting the adoption of these systems at the enterprise level, upgrading technology for traceability, quality and supply-chain management and fostering certification and accreditation. The effectiveness of the farm-to-fork traceability systems established under the project are now such that an export product in a supermarket in the United Kingdom can, in the event of a product recall, be traced back to its source in Egypt within 24 hours.

UNIDO uses the ETRACE concept to promote traceability schemes in other countries. In the United Republic of Tanzania, UNIDO aims to upgrade the capacities of the national quality infrastructure in order to facilitate exports in sectors with important trade potential, in particular the manufacture of coffee and cashew nut products. The project — in addition to focusing on metrology through the accreditation and upgrading of metrology laboratories — seeks to transfer Egyptian knowledge in traceability.

C. Environment and energy

54. Sustainable industrial development needs to have at its centre policies to delink manufacturing and environmental degradation while also ensuring safe and secure access to energy.

55. The environmental activities of UNIDO aim at helping enterprises to prevent industrial pollution and industrial waste from being created and to manage residuals in an environmentally sound manner. This is channelled through core programmes on cleaner and sustainable production, water management and the implementation of relevant multilateral agreements. The Organization's Montreal Protocol programme has been assisting enterprises for almost two decades in eliminating ozone-depleting substances. More recently, the UNIDO Stockholm Convention programme aims to assist enterprises in the elimination of persistent organic pollutants, which are particularly resistant to biodegradation in the environment and highly accumulative in body tissues.

56. UNIDO, in collaboration with UNEP, actively builds up national cleaner production centres, industry support institutions which help enterprises to adopt cleaner production techniques and technologies allowing them to reduce wastes and pollution and cut energy and water consumption in a cost-effective manner.

Turning around e-waste

Developing countries are joining the global information society, with all the benefits that entails, but landfill and the release of toxins into the environment from obsolete computer equipment constitutes a serious concern. The environmental services industry is thus far largely absent in poor countries — both a missed business opportunity and a threat, as electronic waste can consist of high-value components such as copper and gold as well as toxic substances such as lead and mercury.

The UNIDO e-waste programme fosters the development of an environmentally sound recycling industry in developing countries. With the support of the 38 national cleaner production centres, established by UNIDO and UNEP, it also focuses on preparing national e-waste assessment reports and establishing partnerships with public and private sector institutions.

In addition, the Organization's refurbished computer programme complements its business information centre programme by creating an affordable supply of computer equipment and thereby increasing the outreach of quality hardware to rural areas.

57. Energy, a prerequisite for industrial and economic development, is also a major source of global pollution and waste. UNIDO therefore seeks to assist the countries concerned in meeting their energy requirements while minimizing the resulting environmental risks, in particular the threat to the global climate arising from greenhouse gas emissions. Individual services include rural energy for productive use with emphasis on renewable energy (biomass, wind, solar, small-hydro and geothermal) and energy efficiency. UNIDO also plays a convening role in facilitating technology transfer.

58. UNIDO has developed projects to demonstrate the use of energy management systems in industry in China, Indonesia, Malaysia, South Africa, Thailand and Viet Nam, and is using its expertise to assist ISO in designing a global approach for a new standard on energy management.

59. Further, as access to energy is a key factor in the success of entrepreneurs, UNIDO seeks to connect energy provision with its programmes on poverty reduction through productive activities. In 2007, UN-Energy, the inter-agency mechanism on energy, chose the Director-General of UNIDO as its Chair, reflecting the centrality of the issue to the Organization's activities as well as highlighting the important link between energy and development.

60. The complex issues of access to clean energy and environmental protection reach beyond industry and require concerted action. Therefore UNIDO partners with a range of actors, such as the Global Environment Facility, the Montreal Protocol Multilateral Fund, UNEP, FAO and others.

Sustainable biofuels

UNIDO is an advocate for sustainable biofuels, which do not take away from food supply but promote the use of waste products from agro-industrial processing in particular, and which can have a vital role in securing energy for the poor.

In 2007 UNIDO completed a pilot project in the United Republic of Tanzania defining the technical and economic viability of the production of biogas and fertilizer from sisal waste. The sisal industry in the country discards 96 per cent of the sisal plant and processing contaminates up to 10,000 gallons of water per hour. These waste products are now used to produce biogas and fertilizer.

UNIDO continues to be an active voice for responsible development of biofuels, and co-organized on that basis a number of international conferences, such as the International Conference on Biofuels (Malaysia, 2007), the International Conference on Renewable Energy in Africa (Senegal, 2008) and the Global Renewable Energy Forum (Brazil, 2008).

D. UNIDO support for the New Partnership for Africa's Development

61. UNIDO works closely with the African Union and NEPAD in the context of its technical cooperation programme for African countries, and is collaborating with the African Union on the implementation of its Action Plan for the Accelerated Industrial Development of Africa, agreed at the Extraordinary Conference of African Ministers of Industry in September 2007. At that meeting, joint African Union-UNIDO papers on energy security were prepared and presented.

62. During 2007, the African Union and UNIDO jointly organized a number of expert group meetings on various issues of particular interest to Africa. These included a forum on decent and productive work for the youth with emphasis on the Mano River Union, held in February 2007; a forum on quality infrastructure for the African region, also in February 2007; and one on investment for African productive capacity, held in March 2007. UNIDO is furthermore working in collaboration with the African Union on agricultural mechanization in Africa, and held an expert group meeting in November 2007 with representatives from all African Union countries and the African Union Commission.

63. In May 2007, UNIDO, in cooperation with the United Nations Economic Commission for Africa, the African Union and NEPAD, convened a meeting of the United Nations system agencies working in the area of industry, trade and market access. The primary objective of the industry, trade and market access cluster is to provide coordinated support to the African Union Commission and the secretariats of NEPAD and the regional economic communities, including building or enhancing their capabilities, in order to enable them to carry out their programmes in these areas. An annual workplan for 2008 has been developed and a multi-stakeholder workshop is planned at the end of 2008 to finalize the cluster's workplan.

V. Conclusions and recommendations

64. Trends in industrial development show that manufacturing industry is shifting from developed to a number of developing countries. This shift is creating disparities in the industrial performance of various regions and within regions in the developing world. East Asia, and China in particular, now far surpasses others in terms of growth in manufactures. Other developing country regions show a decline in growth (i.e., Latin America), or continue to stagnate (i.e., sub-Saharan Africa).

65. To narrow these disparities and fight poverty, private sector-led growth needs to be further encouraged in the regions and countries left behind, and particularly in the least developed countries. Industrial strategy should aim at removing regulatory obstacles to economic activity and should focus on building the "missing middle" by supporting the development of innovative and dynamic small and medium-size enterprises capable of competing locally and internationally.

66. At the international level, equitable globalization requires a multilateral trading agreement that reflects the development intentions of the Doha Round of trade negotiations. Developing country enterprises face a number of other trade-related challenges that must be addressed, such as non-tariff barriers, a growth in regionalism and over-reliance on primary commodity exports.

67. Climate change, one of the greatest challenges facing humanity, should be addressed, inter alia, through an effective international mechanism for the development and dissemination of technologies, aiming to remove barriers, providing predictable financial resources and other incentives for scaling up investment in environmentally sound technologies, especially in developing countries.

68. The multilateral development system, including the international financial institutions and the United Nations system, must respond together strongly to these challenges and in the light of changes to the architecture of development aid, working coherently but retaining flexibility to adapt to sudden changes or newly emerging needs. The United Nations system's capacity to convene nations, to generate norms and standards and to provide objective advice to stakeholders should be utilized.

69. UNIDO should continue, in partnership with other relevant actors, to promote sustainable, private sector-led industrial development in order to help developing countries, especially the least developed countries, to build up human and institutional capacities, to enhance their international competitiveness, promote investment and technology transfer, promote small and medium-sized entrepreneurship development, develop agro-industries and strengthen further its activities in energy for industry and in combating climate change.